

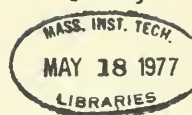
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IDEOLOGY, DEPENDENCIA AND THE CONTROL OF  
MULTINATIONAL CORPORATIONS:  
A STUDY OF THE VENEZUELAN POLICY ON  
FOREIGN INVESTMENT AND TECHNOLOGY TRANSFER

Moise Naim

WP 922-77

April 1977

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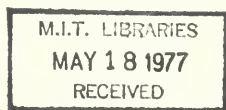
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## I. INTRODUCTION\*

With some exceptions most of the academic literature dealing with the Cartagena Agreement on Economic Integration (the so-called Andean Pact, or ANCOM) analyzes the rationale and genesis of the pact, and issues generated by it, largely from two perspectives: economics and law. The former incorporates in the discussion issues drawn from capital investment theory, international trade, customs union theory and industrial organization.<sup>1</sup> The latter tends to focus on international legal issues and multilateral international agreements.<sup>2</sup>

Implicit in many of these writings is the assumption that by superimposing a theoretical model on the situation at hand it is possible to prescribe the appropriate policy alternatives. In this way, most of the research that focuses on the "formal" or explicit issues arising from the ANCOM project, while certainly capturing some of the theoretical problems and sometimes contributing to their better understanding, consistently fails to incorporate the "informal" and implicit inputs, some of which frequently end up having a bigger impact on final outcomes than formal policy.

Reasons for avoiding the effect that informal transactions have on the explicit plans are easy to understand. An analysis of the underlying, non-institutionalized and multiple forces that relate to the problems to be studied is likely to be less "elegant" than a neoclassical economic model or less rigorous than a piece of legal research. Also, the important component

of cultural specificity a discussion of this sort requires, greatly reduces the potential for drawing broad generalizations from the exercise.

Nonetheless, inquiring into the nature and characteristics of these informal determinants, provides a useful tool to expand one's understanding both of the problems, and of the flaws on the conceptual frameworks used in trying to find solutions.<sup>3</sup> This is also the approach used in this essay to discuss some of the issues raised by the Venezuelan rules and regulations on foreign investment and transfer of technology.

#### I. 1 A FRAMEWORK FOR ANALYSIS

The approach that guides most of the arguments presented in this paper is that it would be misleading to analyze the attempts to control the flows of foreign investment and technology, and the operations of the multinationals in Venezuela by using a "rational" economic model in which the maximization (or even the "satisfaction" in H. Simon's terms<sup>4</sup>) of certain economic variables and the existence of concrete objectives is assumed. It is not even assumed that the foreign business entry control system can be explained in terms of a "rational" political model in which the variables that are maximized according to a universal standard are political, and somewhat apt to be operationalized and therefore integrated into the model.

The basic assumption, instead is that in order to really

dwelling into the issues raised by the Venezuelan policies towards foreign investment it is necessary to discuss subjects like perceptions, interpretations, ideologies and transactions that take place outside the formal framework, all of which are normally ignored by the economist, the lawyer and in some instances, even by the political scientist.

This is certainly not to imply that I assume that economic and political variables are unimportant to the explanation, much to the contrary, economic and political forces are at the core of the situation and are considered throughout the analysis as fundamental for the explanation.

The basic difference, however, is that the behavior of the significant actors, which undoubtedly is a function of economic and political forces will not be assumed to be "rational" in the traditional economic sense, nor based on "perfect information."

The purpose of not assuming the latter is to allow for the possibility of including in the discussion the fact that different actors may interpret the same empirical reality in radically different ways. Therefore, not assuming that the actors' behavior departs from the same "reality" is critical in order to attempt to explain their behavior.

This is also directly linked with the purported rationality of the actors. It is not that I will assume that social groups, organizations or other actors will not try to follow the strategy that entails more benefits (economic or political) for them, it is just that I will consider this an open

empirical question subject to their individual interpretation of what it is that they assume to be best for them, and what are the strategies and actions thought to produce this result.

The difficulties in following this type of approach are obvious. Perhaps the biggest of them all is measurement. Many of the elements that will be used here to explain the behavior of the foreign investment control system in Venezuela (ideology for example) are indeed very difficult to use on an operational way. This of course does not mean that the variable should be left in secondary levels of importance just because of the difficulties in its measurement of quantification. A strong defense for the use of "fuzzy" variables was made by Yair Aharoni in his study of the process by which companies decided to invest abroad:

. . . however strong my professional chagrin may be at not being able to measure some variable, I do not see it as a reason to refuse recognition of its existence. Certainly a theory susceptible of mathematical measurement is much more elegant and may win applause for sound and profound thinking. I feel, however, that at the present state of knowledge in social science it is better to sacrifice elegance and rigor for the sake of realism and clarity.<sup>5</sup>

## I. 2 PURPOSES AND CENTRAL ARGUMENTS

Venezuela joined the Andean Pact in 1973. One of the pact's many schemes is the common treatment for foreign investment and transfer of technology by the Andean Countries (the body of rules and regulations issued by the Pact's central agency is commonly called Decision 24).

With Decision 24 as a base, the Venezuelan government enacted in 1974 legislation that contained all the provisions stipulated in the Decision plus some extra rules that are in force only in Venezuela, thus rendering the Venezuelan laws more severe than Decision 24.

The central theme of this paper is the analysis of the characteristics and the behavior of the regulatory system for foreign investments and transfer of technology in Venezuela.

The argument around which the discussion and the analysis are centered is that in order to understand the nature, the operation and the effects of the control system it is necessary to analyze the issues at two levels, which for the sake of simplicity I will call "formal" and "informal."

At the formal level the analysis will focus on the elements that determined the nature and characteristics of the control system. I will argue that the main explanatory variable in this respect is ideology, and within this framework I will advance the hypothesis that the central component of the ideological framework is the dependency approach or dependencia.

Dependency stresses the structural interconnectedness of development and underdevelopment, and posits that the main causes of the latter are to be found in the economic exchanges between the developed countries (the center) and the underdeveloped countries (the periphery). The implications this world-view has for foreign investment are obvious, and I shall elaborate on them later on the paper.

The inclusion of an "informal" level<sup>6</sup> in the analysis was motivated by the need to explain the reasons for the gap that, I hypothesize, exists between the policy intentions that can be assumed from the reading of the legal provisions, and the actual consequences they are having.

Basically, my contention is that in reality the new legal framework has not importantly affected the economic performance of the established firms.

Preliminary empirical support to this is given by the results of an interview-based research conducted in Caracas in the summer of 1976. The research results are presented in section III.

A first approximation to the explanation of the gap is that its existence is inevitable in that under the present circumstances some of the major provisions of the legislation are unenforceable. An example may serve to clarify what I mean. One of the articles in the law (article 1, Presidential decree 62 of April 1974) stipulates--inter alia--that foreign owned companies operating in the area of sales and services of goods not produced in the country should sell 80 percent of their equity to nationals no later than May 1977. Therefore it is assumed that wholly owned subsidiaries of firms like IBM or XEROX for example will either open their equity to nationals or close their operations in Venezuela.

Given the degree of dependence of the nation on the products and services companies like these provide and their conse-



quential bargaining power vis a vis the government in matters of autonomy, it was clearly unrealistic to expect any of the two alternatives implied by the law to occur.<sup>7</sup> This is certainly a good reason for the gap. But, the question then is, why were these very evident issues overlooked? Bureaucratic naivety and ignorance about the maneuvering possibilities of the multinationals can explain something, but obviously not enough. Here is where the "informal" level of analysis has to enter in the discussion. I will argue that the extreme revolutionary content of the legislation towards foreign investment is a "symbolic" output of the government, and that a similar pattern can be found in many instances of Venezuelan public policy.

The dynamics of the Venezuelan political system exert important pressures on the government to introduce change. To the extent that the present situation allows for large chunks of the population to live in very deprived conditions, change, almost any change, introduced by the government has to be voiced as conducive to the betterment of the masses' well being, and a more just distribution of income and wealth.

Designing and implementing policies without a very explicit reformist content, which can be publicized as another of the attempts to introduce more justice in the system, is a luxury no group in power can allow itself in the peculiar Venezuelan democracy. Short term mass support-building actions have more strategic importance to the government than

long term economic development strategies.

By linking this to a discussion of the roles of ideology and dependencia I also will try to provide an appropriate framework in which to place a more realistic evaluation of the causes of the foreign investment regulatory system. It is necessary, however, to go one step further. Ideology dependencia and populism can be very useful in explaining the characteristics of the regulatory system but we will still need a more concrete explanation of the gap between the government laws (which will be called policy output) and the actual consequences of the legislation (policy outcome). In order to be more concrete the explanation has to include the analysis of the behavior of the different actors that are frequently the targets of the government rhetoric and legislation. Obviously their opinions can not be taken in account by the government in the processes of issue selection and policy formation. Yet, these can be groups with influence whose interests have to be articulated and integrated at some point in the policy process, if extreme levels of conflict are to be avoided.

I will try to argue that their intervention is allowed to occur at the implementation stage. The informal, non-institutionalized transactions that take place after the legislation is passed are instrumental in redirecting the policy consequences towards having less severe implications for the affected actors.

The functionality of the gap between output and outcome in reducing conflict makes it very difficult for the policy analyst to determine the extent to which the gap is produced by the active maneuvering of the affected actors trying to avoid the full impacts of the legislation, or by the flexibility with which the agency in charge of implementing the policy deals with the situation. This last possibility has of course two ramifications. One is that the agency may lack the resources (people, funds, power, etc.) to implement its objectives and the second is that the leading government officials responsible for the implementation may be aware of the impossibility of fully implementing the official objectives, thus trying to survive by merely building the appearance that the agency is functioning according to the books.

As the reader may well imagine in most cases what happens is a combination of all of these alternatives.

In the next section some background facts about the Andean Pact and Decision 24 are given, along with a description of the Venezuelan system to control foreign investors and the transfer of technology to the country.

Following that, is the section in which the research results are presented, together with a discussion of the actual consequences the entry control system is having. The reader should bear in mind that the main purpose of the interviews was to collect data that would help explain the behavior

of the control system. No attempt is made to explain or to discuss the behavior of the foreign firms vis a vis the system.

A discussion of the companies' reactions was presented only when it was necessary to clarify a point pertaining to the control system's performance.

Finally, the last section contains the analysis of the foreign investment control system. The discussion focuses on two areas, one is the analysis of the forces that influenced and shaped the characteristics of the Venezuelan control system and the second is the analysis of the main variables that intervene in creating the gap between policy output and outcome in the case of foreign investment regulations.

## II. THE ANDEAN PACT AND THE CONTROL OF FOREIGN INVESTMENT AND TECHNOLOGY TRANSFER: A SUMMARY OF POLICIES

In 1966, Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela signed a document known as the Declaration of Bogota in which the first steps were drafted towards the economic integration of the Andean region.

Then in May 1969, five of the six countries signed the Cartagena Agreement, thereby formally constituting what is commonly known as the Andean Pact. Venezuela adhered to the agreement four years later, in February 1973 by signing what is known as the Lima consensus.<sup>8</sup>

The Pact's fundamental objectives were officially stated in the Cartagena declaration as:

- The achievement of balanced and harmonious development by the member countries.
- Promotion of growth through economic integration, and
- Implementation of these objectives with the final aim of pursuing the continued improvement of the standard of living of the subregions' inhabitants.

The mechanisms by which these objectives were to be attained were outlined as:

- Harmonization of national economic and social policies.
- The convergence of national legislations in the relevant matters concerning joint programs.
- Joint planning and execution of Sectorial Programs of Industrial Development.

- The adoption of an accelerated trade liberalization program.
- The establishment of a minimal common external tariffs at the national level as a step in developing a common external tariff.
- The channelling and proper allocation of indigenous and foreign financial resources for the support of the necessary investments in the integration process.<sup>9</sup>

Two years after the Cartagena Agreement (in December 1970) the Commission (the highest decision-making authority in the ANCOM) approved the "Common and Internal Rules of Treatment for Foreign Capitals and Transfer of Technology" also known as Decision 24.

This started the most restrictive, comprehensive, and generalized policy towards foreign investment any of the countries in the region had ever had.

The rules and regulations of Decision 24 are designed to control all subregional investment made by persons or entities who are not domiciled within the individual countries.

The rules can be grouped in four major areas: 1) regulations concerning "new" foreign investments (i.e., foreign investments made after July 1, 1971) and the definition of sectors of economic activity where foreigners are not permitted to invest or continue to operate; 2) the prohibition of take overs of existing national firms and the transfer of ownership of foreign owned firms to local nationals (divest-

ment or fade-out); 3) the control of the financial activities of foreign owned firms, and; 4) provisions regarding technology transfer from abroad to both national and foreign firms.

A summary of the relevant rules in each of the four areas is:<sup>10</sup>

1) Each foreign investment project has to be approved by the competent national authority. Thereby introducing a selective admission pattern.

Some sectors of economic activity are prohibited for foreign investors. These are: Basic Products (i.e., exploitation of minerals, hydrocarbons and forests), Public Services (i.e., water supply, sewers, electric power and lighting, telephone, postal and telecommunications), Banking, Insurance and other financing institutions. Also banned for foreign investment are domestic transportation firms, advertising agencies, mass media enterprises (i.e., radio, television, newspapers and magazines) and companies engaged in domestic distribution and marketing of products of any kind. (Articles 40 to 44 of Decision 24);

2) Member countries shall not authorize any direct foreign investment of which the purpose is to acquire shares, participations or rights owned by national investors, unless this investment would prevent the imminent bankruptcy of a national enterprise. (Article 3). In terms of ownership all "new" foreign investment is required to divest (or fade out) 51 percent of its equity in fixed periods of time. (20 years

for Bolivia and Ecuador and 15 years in the rest.)

Existing foreign owned firms are also expected to divest, though they are not legally obliged to do so.

In theory, at least, Decision 24 would make it very difficult for foreign firms, established prior to the Cartagena Agreement, who are not willing to divest their ownership to nationals, to operate competitively with firms to whom the advantages and incentives of the pact are granted (through industrial programming and tariff reduction).

Another incentive for existing firms deciding to divest is that access to local long term credit is permitted for them, while prohibited for non-divesting foreign firms;

3) The foreign firm (defined as being more than 49 percent foreign owned) is under financing restrictions concerning credit utilization in that all external credit must be authorized, and interest payments approved by the national agency. Profit remittances should not exceed 14 percent of registered capital and any reinvestment above 5 percent of registered capital must be approved by the national agency.

Royalty payments to the parent company are not allowed. Capital repatriation can be done only after the foreign firm is liquidated;

4) Technology is another area tightly controlled by the regulations. All contracts on the importation of technology and on patents and trademarks must be evaluated and approved by the national agency. No contract involving the transfer



of foreign technology or patents will be approved if it contains clauses compelling the local firm: to, a) buy inputs from specific sources; b) give to the technology supplier the right to fix sale or resale prices of the products manufactured; c) limit volume and structure of production; d) use a competitive technology; e) grant a full or partial purchase options to the supplier of the technology; f) transfer back to the supplier any improvement made on the technology, to limit exports and, finally; g) to pay royalties for patents not being used.

Article 21, also provides that intangible technological contributions may not be computed as capital contributions.

An important point to stress here is that all the rules and regulations contained in Decision 24 can be considered as guidelines in that any of the member countries may choose not to enforce a given rule.

As an International Treaty among six (five after October 1976) sovereign nations the Cartagena agreement has no supra-national power. In this concern all the decisions taken by the law making body of the Agreement, The Commission, always include provisions that allow for each member country to exert its sovereignty and issue its own laws which in some cases have been different from country to country.

In the case of Decision 24, each country drew its own legislation in the subject, which are formally very similar, but with important differences in their actual implementation.

In the case of Venezuela, Decision 24 was established in the national legislation by Presidential Decrees 62, 63 and 746. (The first two issued in April 28, 1974 and the last in February 11, 1975.)

These initial legislations were later somewhat modified by Decree 2031 issued in February 9, 1977.

Decree 62 deals with the reserved sectors which are excluded to foreign investors; Decree 63 legislates the main body of Decision 24; Decree 746 establishes the regulations for technology transfer and Decree 2031 introduces changes in Decree 62.

The specific Venezuelan legislation is presented in the next section when its implementation is discussed.

### III. THE IMPACTS OF DECISION 24 IN VENEZUELA: AN EMPIRICAL EVALUATION.

#### III. 1 WORKING ASSUMPTIONS AND METHODOLOGICAL FRAMEWORK

This section attempts to assess the impacts of the foreign investment controls in Venezuela. The study is based on a preliminary field work carried in the summer of 1976, in which 28 interviews were conducted. ~~Of~~ these, 17 were chief executives of foreign firms and 11 were top managers of domestic firms and government officials. (See Appendix 1.)

The analysis and discussion of the data presented here must take in account four contextual factors which limit the scope of the conclusions. First, is the impossibility of using quantitative analysis to support any assertion due to the nonexistence of publicly available statistics on the subject.<sup>11</sup> Second, one should note the short period during which the system has existed (for all practical purposes the Superintendency of Foreign Investments--SIEX--started operations in mid-1975). Third, the interviewing period coincided in time with a) the economic boom which the country is going through due to massive government spending and investment and b) the coming meeting (October 1976) of Andean Pact representatives, which was anticipated to produce changes on Decision 24 on the less restrictive side, thus creating a period of wait-and-see among foreign investors and government officials.<sup>12</sup> Fourth, due to the preliminary nature of the study the sample is limited both in quantity and geographical scope (all the

interviews were undertaken in Caracas).

Another issue which deserves mention is that any evaluation of the impacts of a foreign investment control system has to deal with the problem of bias towards the "survivors." This is to say, the analysis is made of the system's performance vis a vis new projects seeking access despite the restrictions, but with little or no attention to the potential losses (or gains) due to discouraged projects which did not reach The System, because of the restrictions.

The conceptual framework presented in the introduction provides the working assumptions that guided the empirical research.

The general purpose of the interviews was to inquire about the functioning of the regulatory system of foreign businesses and the international technology transfer both to foreign and national firms.

The specific objective of the inquiry was to test the hypothesis that the regulatory system relative to foreign investment and technology transfer was producing different net impacts than those that may be assumed from the official government statements and from the content of the laws and regulations that define the system.

In this sense it is explicitly assumed that the broad policy intention is the reduction of the levels of external economic dependence. The way in which this is to be attained is through: 1) the prohibition to foreign owned firms to

operate in certain areas of economic activity; 2) the control of foreign firms' activities; 3) the enhancement of national firms' bargaining power; 4) the reduction of the payments for technology; 5) the screening and evaluation of new foreign investment projects seeking access to the country therefore filtering out those considered not to produce a net contribution to the national economy, and the transfer of ownership from foreigners to local nationals (divestment).

Let us note at the outset the obvious difficulties inherent in developing research activity along these lines. First, and above all, are the problems involved in appraising the validity of official statements from company and Government spokesmen. They convey the image of almost perfect congruence between the legal framework and the behavior of the affected actors. But, how can this be true if the legal framework contains provisions that run counter to the very basic business principles in which a firm has to operate?

In other words, how can it be explained, for example, that in all 14 technology contracts approved by SIEX in 1975<sup>13</sup> the foreign technology suppliers had accepted a requirement that they relinquish their technology and brand names after five years, or, that they allow the local company to export products carrying their names and using their patents, thus having to cope with the possibility of competing with their licensee in a third market?

Of course, one can speculate that the foreign supplier

of technology agreed to this last requirement based on the assumption that high production costs in Venezuela would prevent the local company to compete internationally, but even if this were the case (and in the six replies to my questions in this respect it did not seem to be the case), the influence of this provision in reducing the net economic effects of the local firms' dependence on foreign technology suppliers is very limited.

Another major problem was how to interpret events which were inconsistent with the legal framework. Due to the lack of clarity in respect to many points in the legal instruments which define the regulatory system, and the unwillingness of SIEX to issue official policy guidelines,<sup>14</sup> the approach has been to make individual studies of each case. This practice, coupled with the reliance on personal high level contacts, traditionally present in the Venezuelan business-government transactions,<sup>15</sup> produces a very blurred picture for analysis in that when a deviant event occurs it is extremely difficult to determine whether this outcome signals a tendency, generated by the presence of an implicit policy in SIEX's evaluation, or if it is just an isolated consequence due to the particular influence of the individuals concerned with the project. An extreme example of this was that despite all the statements and laws concerning the prohibition of the transfer of ownership from nationals to foreigners, a multinational firm was allowed to buy out the national interests

in a major ongoing manufacturing venture, thereby transforming it into a wholly owned foreign company.<sup>16</sup>

A further difficulty in working around this hypothesis was the already mentioned nonexistence of statistics. The most effective way to measure the present economic impacts of the system would obviously have been the comparison of the "before" and "after" financial flows. Given the impossibility of pursuing this macro approach, the study of the micro-level behavior became imperative.

This was also necessary, in that, the system had provisions that were designed to have their impact at different points in the future (e.g., divestment). This fact, plus the aforementioned recentness of the system made it necessary to inquire into the future plans of the affected firms vis a vis the regulations, thus trying to extrapolate from that the likely outcomes of the system's implementation.

These inquiries were also very useful in providing further insights into the contention that policies are directed towards having different effects at the implementation stage.

Extended interviews (one to two hours) were held with executives of involved foreign and national firms.

Many of the questions were geared to inquire into the interviewee's views of the future. The explicit assumption was made that the strict enforcement of the legal code for an extended period was economically and politically unfeasible

due to the prevailing political and economic structures, thus a part of each interview was directed at finding evidence to test the hypothesis that the impact of the system on the concerned actors was reduced by their perception (conscious or not) that the formal policies were going to be subverted and would not, therefore, have the anticipated effect.

Implicit in this is the assumption that the subversion of policy intentions at the implementation stage is a function of the process by which the interests of affected actors are not articulated and incorporated during the policy formulation, but are integrated to the policy process after the legislation is passed.

This is basically a result of the environmental conditions that force the implementing bureaucracy to apply the policy provisions very flexibly. In this way the affected actors are allowed to maneuver and somewhat reduce the consequences of the policy content that was possible to incorporate in the initial policy design by ignoring their interests at the formulation stage.

Government officials and some other knowledgeable persons (consultants, professors, journalists) were also interviewed on these topics. Due to the delicate nature of the questions, interviewing executives in a random sample of firms would have limited access to the type of information being sought. Thus the approach was to interview people with whom I established a certain familiarity prior to the interview.<sup>17</sup>



While it is not claimed that the executives interviewed are a statistically representative sample, I will suggest that the group's views presented here are very unlikely to be a unique body of opinion.

Three major areas were covered in the interview: 1) the issue of divestment of the foreign companies operating in sectors now reserved to local firms; 2) technology transfer (both to national and foreign companies) and finally; 3) financial flows and divestment of foreign companies not forced by law to do so.

### III. 2 RESTRICTED AREAS FOR FOREIGN INVESTMENT AND ISSUES IN THE DIVESTMENT PROCESS

There is little doubt that of the Andean group Venezuela has made the biggest effort to implement Decision 24. While other ANCOM countries have followed the provisions contained in the Decision rather loosely,<sup>18</sup> Venezuela enacted a specific body of rules and regulations which in some instances are much stricter than the common Andean Policy on the subject. Also, with the establishment of a specific government agency in charge of implementing the code (the Superintendency of Foreign Investment--SIEEX) and the resources devoted to it (slightly more than U.S. \$1.5 million a year), Venezuela has gone much further in institutionalizing the controls than most of the other Andean group members.<sup>19</sup>

Among the areas in which Venezuelan law is more restrictive

than Decision 24 is the definition of those sectors in which foreign investment is permitted to operate. As we may recall Decision 24 establishes that foreign investment is not to be admitted in primary sectors, public services, insurance, finance and banking, internal transportation, advertising, mass media, and domestic marketing of products of any kind.

Venezuelan Decree 62 includes all these plus the area of professional services (i.e., consulting and similar activities). Other legislation restricts foreign investment in steel, petrochemicals, powdered milk and animal feed. Other sectors which are very likely to be restricted in the near future are food processing, pharmaceuticals and hotels and related tourism activities.<sup>20</sup>

At the time of the field work (summer 1976) the more visible consequences these restrictions were having relate to existing companies operating in the sectors contained in Decree 62, in that it is required that they should be transformed into national companies (80 percent national ownership) by May 1977. In this sense, the focus of attention and uncertainty has been on the foreign firms engaged in the domestic distribution of goods and services, unless these are produced in the country.<sup>21</sup>

While no argument can be raised against the desirability of rules of this kind, specially in the cases in which local companies can perform the same tasks without causing major price increases, the problems rest on the several simplistic

assumptions on which this clause of Decree 62 seems to have been based.

The first was the notion that high technology firms which fell into this category would be willing to continue their operations in the country with only a minority (20 percent) interest. The second was that enough incentive existed in the system to motivate foreign firms to start manufacturing in Venezuela. The third dubious assumption was a combination of a very basic lack of information and what could be regarded as an unrealistic appraisal of the environment. The assumption underestimated the importance of the affected firms (in terms of number, size, and their role as suppliers of goods and services for key sectors of the economy) and overestimated the country's capacity (both economic and political) to absorb the impact of the disappearance of the products and services that these companies provided.

The fact that these were unwarranted assumptions was disclosed by the interviews as well as by events which occurred after the interviewing period.

Let us briefly discuss these three aspects implicit in the law. The first is the issue that sometimes international firms can have more bargaining power than some of their host governments, due to the scarcity value of their contributions. This has been discussed many times and by now is part of the common wisdom about operations of the multinationals.<sup>22</sup> During the interviews it was learned that some of the foreign com-

panies affected informed the government that they would withdraw should some aspects of the rules be strictly enforced.<sup>23</sup>

Consistent with our model of "influence at the implementation stage," under-the-table modifications and redirections of the laws have started to occur, and the feeling (both among the affected firms and government officials) that the May 77 deadline was not going to be enforced was a recurrent feature in the interviews. In the more obvious cases, (e.g., computers and information processing systems) the reluctance of the foreign firms to divest ownership in their Venezuelan distributing-service subsidiaries (frequently the result of a policy enforced at the world level by the multinational firm headquarters) and the government's awareness of the country's dependence on these firms has led to the non-enforcement of the "revolutionary" laws in this area.<sup>24</sup>

The second assumption was that the laws would motivate the foreign firms to expand their operations in Venezuela by starting the manufacture of the products previously imported, thus being allowed to remain foreign owned. This overlooked certain known facts that companies take into account when deciding whether to invest in a manufacturing enterprise abroad or not.<sup>25</sup> Some of these facts which are relevant to the discussion are: a) profit repatriation; b) market size and; c) manufacturing feasibility, in terms of the local availability of the elements needed in the production process (e.g., skilled labor, sources and quality of parts, materials

and supplies).

While I am not claiming that the characteristics of these three elements in Venezuela rule out manufacturing investment by foreign companies in all cases, I do maintain that these three facts combined with the climate of uncertainty, consequence of the government rhetoric, produce an investment environment that is more likely than not, to be evaluated by the firm's headquarters as having more costs than benefits.

Concerning the third assumption implicit in the Decree, namely the underestimation of the quantity of firms involved and their strategic importance for the economy, in one of the interviews I was informed that one of the ministers involved in the drafting of the legislation candidly admitted that at the time no statistics on the subject existed and the belief was that the companies affected would have been fifty or so, when in reality they turned out to be more than one thousand!<sup>26</sup>

The other point overlooked by the drafters are the links of these firms with the rest of the economy.

In the case of the oil industry, for example, many of the very basic inputs are provided by companies affected by the law (e.g., instrumentation and industrial control systems, drilling devices, tooling machinery, corrosion maintenance equipment, refinery process machinery, etc.).

In many of these cases there is neither the willingness by the foreign firm to divest nor the local market to buy the divested ownership.

The issue of whom, how and when to divest is one of the most uncertain elements of the whole foreign investment scheme of the Andean group. The lack of appropriate capital markets in which this operation could be undertaken efficiently is a major constraint.

Even if a foreign company would have decided to divest by May 1977 it is not clear who the buyers could have been and what the price-setting criteria would have been. Furthermore, in times of high inflation, historical costs and book values lose much of their significance, thereby leaving replacement value as one of the important determinants of the price of a firm's shares. These added complexities in respect to the price determination process serve to support an obvious strategy which the companies may pursue, namely divesting at prices in which no national investors can be found, thus "forcing" the company to remain foreign owned. (The possibility that the government might buy the stock through one of its finance institutions is, of course, open but it seems unlikely that this will be undertaken systematically by the government.)<sup>27</sup> On the other hand, executives in all the companies engaged in domestic commerce in our sample (8) reported that in the aftermath of the enactment of Decree 62, which required their divestment three years hence, they were approached by some national investors seeking ownership participation but in only a few cases (2 instances in our group) were the offers deemed worthy of consideration by the parent company. This

fact, or course, may reflect a bias in respect to the group of sales and services companies which were interviewed, in that, it would be unrealistic to assume that all foreign companies were approached by national investors attracted by the opportunity of more-than-average profits. It is safe to assume that the group of national investors capable (and interested) in acquiring some equity in the divesting companies would concentrate their attention on relatively high profit firms. Therefore, the type of firms which would continue to operate in the country, determined in theory by the fact that they: a) accepted selling 80 percent or more of their equity and; b) found national investors willing to buy these shares, is very likely to be composed by the higher-profit companies, which is certainly not a reflection of the allocational priorities of the country.

Another important issue that should be addressed in this context has to do with the added cost which would be incurred in gaining access to the products provided by the companies that would have to operate through a minority owned subsidiary. It is possible to speculate that after a company engaged in domestic distribution ceases to be a foreign owned subsidiary and becomes 80 percent owned by locals, the former parent company is likely to increase prices to the now locally controlled distributor. This is because the sales to the distributor are now the main sources of revenue for the international company in its operations in the country, given that

earnings from dividends cannot be more than 20 percent of the total. (This, of course, is a function of the specific market structure for the products in Venezuela.) A future study shall focus on the type of companies likely to divest, and the economic consequences of the divestment.

Somewhat confirming our discussion of the divorce between the content of the legislation and the real impacts of the mechanisms by which the laws are implemented are the perceptions of the group of top executives interviewed in respect to the expected consequences of the regulatory system in their respective firm's operation. Note these expectations.

Do you think your firm will continue to operate in Venezuela after May 1977?

yes	6	
no	0	n = 8
don't know	2	

For how long?

less than one year	0	
one to three years	4	
three to five years	3	n = 8
more than five years	0	
don't know	1	

Assuming your firm is allowed to operate in the country after May 1977, do you think that your net profitability will be reduced in the coming three to five years?

yes	2	
no	4	n = 8
don't know	2	

These three questions were part of a larger questionnaire that was filled out by the interviewees (see Appendix II).



The following are tabulations of statements, opinions and perceptions that the executives manifested during the conversation with the interviewer.

# TABULATIONS OF NON-QUESTIONNAIRE INTERVIEW CONTENT

## TABULATION I

Foreign firms' executives' reactions to the Venezuelan foreign investment code clause requiring foreign owned firms in the area of local distribution of goods not manufactured in the country to divest 80 percent of equity by May 1977. (Replies as of July-August 1976).

(Numbers in the matrix are frequency of response; the number of firms affected by this in the total sample of interviews is 8).

Alternatives	Policy being followed by the firm	Possible policy	Rejected policy alternative	Not mentioned
Withdrawal		2	4	2
Sell 80% of business			6	2
Start manufacturing (new investment)			8	
Enter into a contractual relationship:				
Management contract				8
Technical agreement		1	2	5
Licensing		2	3	3
Assume that the law would be modified in the future and wait	6			2
Negotiate special treatment	2	4		2

## TABULATION II

Reason for not planning to divest

Uncertainty as to enforcement	8
Uncertainty as to whether the firm is included under the category of sales and services company <sup>a</sup>	3

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<sup>a</sup>In no part of the legal instruments concerning foreign investment is a concrete, operational definition of "internal commerce companies" presented. See footnote 21.

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## TABULATION III

Executives' expectations as to enforcement

Enforcement	0	
General non-enforcement	2	
Specific non-enforcement of certain clauses	3	n = 8
Particularistic non-enforcement (firm by firm basis)	3	

## TABULATION IV

Reasons for expectations doubting enforcement

(total is more than 8 due to more than one response per person)

Absence of local buyers for the divested equity

Non-availability and/or inadequacy of local management to continue with the business	3
Need for our technology	5
Need for our international organization	2
Need for our products	4
Fear of concentrating even more the control of the private sector in the hands of the few big Venezuelan family-conglomerates who are the only ones capable of buying us	3
The government is realizing the difficulties of the implementation of the law as it stands now so it is backing up to a more "realistic" situation	3

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These answers clearly convey a different appraisal of the environment than the one that is gained by the evaluation of the rules and regulations on foreign investment in Venezuela.

While the laws stated that foreign companies operating as distributors of products not produced in the country would not be allowed to remain foreign owned after May 1977 none of the eight executives of such firms interviewed thought that this would be enforced. Furthermore, six out of the eight either rejected or did not mention the possibility that their company would have to withdraw from Venezuela (see Tabulation I). Also, none of the interviewees mentioned either that their firm was selling 80 percent of its stock to local nationals or that the firm was considering this as a possible

policy (Tabulation I).

When asked about their reasons for not including the divestment issue in their plans if it was a matter of law, the unanimous response was that they were not sure that the laws were going to be enforced (see Tabulation II). Concerning the reasons they had for thinking that the rulings were not going to be enforced, the replies varied (see Tabulation IV).

As it was previously mentioned, at the time of the interviews the Andean group was going through a crisis, which was expected to produce among other things, changes in the foreign investment code. This is of course a factor likely to have influenced the executives' views on the implementation of the foreign investment code at the time.

Nonetheless, the general perception of the importance of their respective firms in providing the country with some element (products, technology, management, international networks) that would not be very easy to replace also played a part in shaping the executives' perceptions on the enforcement possibilities of the law (see Tabulation IV).

Another possibility concerning the non-enforcement of the regulations mentioned in the interviews was that they were issued for political reasons and now it was being realized that the strict enforcement was too difficult, if not impossible.

In the words of one of the respondents:

. . . on the other hand, and speaking very frankly I don't think the May 77 deadline will be maintained, and I believe that if a company goes to them and proposes an alternative which shows that some changes in its structure will occur so they [SIEX] can protect themselves if someone starts asking questions about the implementation of the decrees they will accept it.

You see, by now they know that it is impossible to do what they wanted to do in the beginning, but they can't go back.<sup>28</sup>

In any case, and whatever the reasons for not planning to divest, the reality was that these executives were almost certain that the Presidential Decree No. 62 would not be enforced. And they were right.

On February 9, 1977 Presidential Decree No. 2031, substituting Decree 62, was issued. Decree 2031, maintained all the sectors of economic activity prohibited to foreign investment that were defined in Decree 62. But some changes were introduced.

The basic modifications relate to the foreign firms operating in the domestic commerce of goods not manufactured in the country. While the banning of foreign investment in this area is maintained some exceptions are introduced:

- a) Foreign firms operating as distributors of consumer durables, their accessories and complimentary products (even if they are not durable) when their use is necessary for the consumer durables are excepted;
- b) Also **excepted** are firms that will start manufacturing 51 percent or more of their sales in the country, with a national value added of no less than 30 percent no later than three years hence. (This is the formalization of a rule that was being applied by SIEX informally, see footnote 21.);
- c) Foreign companies distributing products manufactured by national firms under manufacturing contracts and

with "technology effectively transferred" to the national firm are excepted. The fact that production thus manufactured can account for the 51 percent mentioned above in (b) is left to the interpretation of SIEX.

Concerning the foreign firms which would not qualify under these exceptions, the deadline was extended from May 1977 to December 1977.

The process of divestment will be supervised by SIEX and if the foreign firm shows evidence that no buyers have been found for the firm's shares, SIEX is authorized to extend the deadline.

It would be of extreme interest to investigate the consequences of these changes in the future.

### III. 3 TECHNOLOGY AND KNOW-HOW: THE CAPTIVE ARENA

This area is by far the most controversial of the Venezuelan foreign business regulatory system. As in the case of those sectors prohibited to foreign investors, the Venezuelan law on technology transfer contains all the prohibitions embodied in Decision 24 (in respect to restrictive clauses in technology contracts,<sup>29</sup> the payment of royalty between related companies and the capitalization of technology contributions) plus other unique to Venezuela. These include:

- a) a limit of five years on all technology contracts; b) the unenforceability of the technology supplier of trademarks and patent rights after five years (i.e., contract term); c) the prohibition of such contract clauses as the requirements to

use licensor-determined quality control procedures, that all taxes imposed on the supplier should be paid by the user.<sup>30</sup>

Furthermore, SIEX has the authority to prohibit any clause deemed to be too restrictive "in respect to the technological development and the social and economic interest of the country."<sup>31</sup> Based on this, SIEX has objected to a clause which would have terminated the contractual relation if a change in the principal stockholders occurred in the recipient firm; in another instance SIEX ruled against a clause by which the supplier limited its legal accountability relative to the user's operation of the process under contract.<sup>32</sup>

Again, it is difficult to imagine what were the assumptions on which the laws on technology transfer were based. It will be argued here, with partial support from the interview results, that given the type of industrialization pattern being followed in Venezuela it is structurally very difficult to enforce these rules and regulations.

Limiting technology contracts to five years, after which period the national firm is allowed to use the same (or similar) brand name and trademark as the foreign supplier without having to pay for is a decision that, I maintain, was taken without considering some important characteristics that determine the technology transfer process (e.g., the structure of the technology suppliers, that of the receivers, the determinants of the technology's pricing process, the links of technology transfer and foreign direct investment, the dynamic

component of the transfer process and the interdependence of technology innovation and business competition in a market economy). This is one aspect, the other aspect that seems to have been overlooked by the drafters was the economic, and as a consequence, the political repercussions of the law's strict enforcement.

Assuming that losing its patent rights after five years is unacceptable for the big international companies with a world-established name (which is far from being an unrealistic assumption) and that therefore the company chooses not to license its patented goods and services in Venezuela; what then would the political reaction be to a sudden discontinuity in the supply of these products? What actions have been taken to ameliorate the political reaction that with all likelihood will rise as a consequence of the reduced access to the consumer goods to which the Venezuelans' are accustomed? American style consumerism is one of the consequences the long oil-based affluence has had in the country, and it has rapidly expanded since the 1973-1974 boom in oil revenues. Government intervention in this area would have seemed an obvious prerequisite to the enactment of a law which is designed to have an important impact on society via the determination of the production processes which enter the country and which are likely to be very different from what have been hitherto if the law is enforced.

But we can even go a step further and assume that the



technology supplier will accept the five year limit and let the national firm use its patents and trademarks after the five years. But then, the national company that chooses not to renew it after five years while continuing to use the technology is risking the possibility of losing its market over time due to its inability to keep up with the product modifications and improvements likely to be developed by the international suppliers and which sooner or later will enter the country.<sup>33</sup>

The same can be said of most of the provisions included in Decrees 63 and 746 in that the dependence of the national industrial system on the foreign technology suppliers severely limits its ability to take advantage of the legal provisions which "formally" allow for the possibility of exporting, using trademarks without retribution, choosing whatever quality control and input products are desired, etc. The reality that was disclosed by the interviews is that in most of the cases where the technology suppliers agreed to abide by the Venezuelan rules, it was understood that this was just to fulfill a red-tape requirement but that the tacit or explicit rules were that none of the new "freedoms" granted by the law to the recipient firms were going to be used.

These are the answers of the executives in six national manufacturing companies interviewed:

Are you thinking of not renewing any of the technology contracts which you are presently using in your pro-

duction processes?

yes	0	
no	5	n = 6
don't know	1	

Are you considering the alternative of exporting products manufactured under license?

yes	0	
no	6	n = 6
don't know	0	

Have you had any informal agreement by which the taxes attributable to the supplier will be absorbed by you in any form (increased prices, for example):

yes	3	
no	2	n = 6
don't know	1	

The other aspect of the technology transfer in which we were interested concerned the reaction of foreign companies to the regulatory laws. Article 59 of Decree 63 states that no royalty payments are permitted between affiliates. However, a supplementary paragraph to the article indicates that it is possible to pay for occasional individual technical assistance services, or for those whose amount does not exceed a maximum figure (not defined by SIEX at the time of this writing).

Fourteen of the seventeen foreign firms' executives (or 87 percent) acknowledged in the interviews that in fact royalties were now being paid to their parent companies as technical assistance services.

A good indicator of the importance attached by the foreign firms to the present system's restrictions were their executives'

perceptions as to the impact of the system on future earnings.

Do you perceive that the revenue contribution generated by the exploitation of know-how, patent rights, trademarks, licenses and other similar intangibles produced by your parent firm will be reduced in the future as a consequence of Decrees 63 and 746?

yes	4	24%	
no	5	29%	n = 17
don't know	8	47%	

The fact that more than 75 percent of the respondents were either uncertain or positive that the legal provisions would not erode their technology-based revenues certainly gives support to the notion that the economic effects of the regulatory system are likely to be different than those expected by the drafters. The widespread awareness that technology is the area in which the country depends the most on foreign companies, and that having oil based affluence certainly helps but is not the panacea in solving the problems of gaining access to the modern technology required by the type of industrialization being pursued, are important components of the low credibility given to the laws governing the transfer and acquisition of technology in Venezuela.

### III. 4 FINANCIAL FLOWS AND DIVESTMENT

The area of financial flows is also covered by Venezuelan regulations on foreign investment. Foreign owned companies were allowed to remit a maximum of 14 percent of registered capital per annum as profits and reinvest 5 percent. Recently, however, (October 1976) Decision 103 was issued by ANCOM, modifying Decision 24 in that maximum 20 percent remittances are suggested and 27 percent reinvestment limit is suggested, subject to each country's decision.

With the 14 percent remittances and 5 percent reinvestment (taken as a percentage of registered capital) companies making profits above 19 percent of their registered capital (or above 14 percent if reinvestment in the present operation is not desired) are supposed to keep these extra funds in the country (the so called "limbo" money).

With the recent inflow of money into the economy, consequence of the increased government spending, the level of monetary liquidity is very high. Naturally, this fact depresses interest rates, making the cost of capital in Venezuela relatively lower vis a vis that of capital markets abroad. This exerts important pressures for the foreign companies (especially those who have a multinational structure) operating in Venezuela to find better opportunities for their "limbo money" than keeping it in local banks.

A further pressure in this respect arises as a consequence of the influence of the tariff structure on Venezuelan exchange

rates. High protection and government reluctance to devalue (a reluctance supported by the influence of oil revenues on the balance of payments) makes the Bolivar overvalued.<sup>34</sup> This gives special advantages to foreign firms, which having obtained local funds, remit profits earned with those funds.<sup>35</sup> And, even though such borrowing is no longer possible due to the provisions in Decree 63 which prevent long term local borrowing by foreign firms, the overvaluation of the Bolivar is still a powerful incentive for foreign firms to transfer funds out, whatever the source of funding. Bear in mind that, in the absence of an exchange control system, the mechanisms to monitor the international financial transactions give no guarantee of an accurate control of the flows. Hence, one should be cautious in accepting statements to the effect that the multinational corporations' subsidiaries in Venezuela are remitting only the 14 percent prescribed by the law. In the interviews no specific question touched on this point, but in conversation, most of the interviewees said that they were actually remitting the 14 percent. In many instances, however, they were very reluctant to elaborate on what use was made of the funds not remitted.

A second issue that deserves some further discussion is the divestment process. In August 1975 the government issued the Foreign Enterprise Transformation Law.<sup>36</sup> The law seeks to regulate the sale of foreign shares to national investors and sets out the general framework within which the divestment

process will take place. It also gives unrestricted authority to SIEX to supervise and intervene in all such transactions. In this sense, SIEX is authorized to examine the books of the firms involved, as well as to demand as many written or oral reports as considered necessary (Article 6).<sup>37</sup> Up to this time, the cases in which the law has been applied have been very few, and this will apparently continue to be the situation. The reason is the low interest foreign companies have in divesting.<sup>38</sup>

The main assumption supporting the notion that enough incentives would exist to motivate foreign companies to divest was that regional tariff reductions and industrial programming would generate a broader market and an industrial organization setting which the companies could not allow themselves to lose.

The inability of the Andean Pact countries to implement these schemes has taken away, for the moment at least, the pre-conditions that were supposed to motivate divestment.

One of the companies in the survey was an early divestor which had been motivated specifically by an interest in exporting its Venezuelan-manufactured products to Peru and Ecuador. The general manager observed that three years later the firm had not yet been able to sell a single unit in either of the two countries.<sup>39</sup>

Venezuela has designed alternative mechanisms to encourage divestment, which are also directed to nationally owned firms.

The incentives are important tax reductions which increase as a function of the percentage of ownership sold to the public.<sup>40</sup> This model, however, is still in its infancy and therefore it is too soon to appraise its effectiveness.

Other incentives that may be considered by foreign companies concerning divestment are the possibility of royalty payments and the access to local sources of long term capital, both alternatives that are prohibited to majority owned foreign companies.

Executives in nine wholly owned manufacturing multinationals, which were not required to divest, were queried about the incentive they would consider as the most important in motivating divestment. Their answers were:

Access to expanded sub-regional markets	1	
Possibility of royalty payments to parent company	2	
Access to local long term capital	4	n = 9
Advantages given to a SAICA (i.e., reduced taxes)	2	

Note that the answers with the highest (4) and the lowest (1) frequency were both likely to have been influenced by the timing of the interviews, which, as was already mentioned, coincided both with a period of heavy government lending at low interest rates to the private sector and rumors about the Andean Pact disintegration that preceded the Lima meeting, (in which Chile withdrew from the Pact).

The only safe conclusion that can be derived from the interviews concerning divestment was that, in general, the

companies not required to divest were very far from seriously considering any type of divestment. My impression is that under the present circumstances this situation is going to remain unchanged for some time to come.

### III. 5 SUMMARY OF FINDINGS AND CONCLUSIONS

Even if the preliminary nature of this research and the previously discussed methodological limitations, prevent the drawing of conclusive generalizations on the issues studied, it is still possible to advance some tentative conclusions on these matters.

It was assumed that the broad aim of the foreign investment control system was to reduce the degree of external economic dependence, and that this was to be achieved by:

- 1) The prohibition of foreign firms operating in sectors of the economy reserved to national firms;
- 2) The control of foreign firms' activities;
- 3) The enhancement of national firms' bargaining power;
- 4) The reduction of payments for technology;
- 5) The screening and evaluation of new foreign investment projects to insure that they would produce a net economic contribution to the nation;
- 6) The transfer of ownership from foreigners to local nationals.

Conclusions, based on the twenty three interviews, as to the effectiveness with which these six points are being implemented are:

Point One, Reserved Sectors: While in some sectors, the law is being observed<sup>41</sup> (steel, petrochemicals, minerals and



petroleum, consulting and other professional activities, public services, insurance and banking, mass media and telecommunications) in the area of domestic distribution of goods and services, foreign companies continued to operate, and it appears as if in the foreseeable future no important changes will occur in the ownership structure of this sector.

Point Two, Control: At this point in time the major control over foreign firms' activities is the control of their international flows of funds (basically enforcing that remittances to the parent firm are not in excess of 14 percent of registered capital and that no royalty payments to the parent firm are made). The evidence is inconclusive in the case of remittances and in the case of royalty payments the controls have not been effective in that the payments are being made under other labels (e.g., technical assistance services).

Point Three, Bargaining Power: The main clauses designed to achieve this are those pertaining to technology transfer and the prohibition for foreign firms to buy out local companies. Concerning the latter, one case was known in which a national firm was bought by a foreign multinational. The terms of the transaction, however, remain undisclosed, thus preventing any further comment on this. In terms of the technology transfer clauses aimed at providing local users with increased negotiating strengths vis a vis the foreign suppliers, the interview responses indicated that this bargaining power is not used by the local firms, largely as a consequence of the existence of other factors that counterweigh by far the bargaining power produced by the laws.

Point Four, Technology Payments: The consequences of the regulatory system on the reduction of payments for technology can be analyzed with essentially the same data that supported the conclusions on points two and three. While technology payments named under certain categories (royalties and license payments, for example) have been reduced, flows equivalent to the reduction seem to have taken place under other names or through transfer pricing.

Point Five, Screening: While this point was not specifically discussed in the interviews, there was a tendency by the interviewees to believe that this was the area in which the foreign investment code was being more severely applied. This opinion was frequently supported with the fact that the flow of new foreign investments had been considerably decreased after the enactment of the laws. This, however, cannot be interpreted in that the total flow of new investment proposals remains undisclosed. No conclusion in this respect will be advanced here.

Point Six, Divestment: The general conclusion on this is that unless important changes that alter the present conditions occur, the number of foreign firms deciding to divest to local nationals would be insignificant.

"The basis for social action is speculation. By speculation I mean nothing more profound than models of social structure and behavior. Whether such models are viewed as ideology, art, or wisdom, they consist in imaginations about the world. Social policy builds on those imaginations."

Jame G. March<sup>42</sup>

Question: How would you define "Third World?"

Claudia: It is formed by underdeveloped countries, exploited by the capitalist countries.

Francesca: They (the Third World countries) are the product of the capitalist countries that developed first and have used us as their base.

Question: What way do you think Venezuela should follow?

Adriana: Eliminate our dependency with the United States.

Ezequiel: I think that the problem is that the U.S. have a base here, the bourgeoisie and this base dominates the government. . . .

Televised interview with 10-12  
year old children.<sup>43</sup>

#### IV. THE DETERMINANTS OF THE POLICY OUTPUT, ITS OUTCOME AND THEIR GAP IN THE CASE OF THE VENEZUELAN FOREIGN INVESTMENT CODE

The purpose of this section is to discuss and analyze the processes and variables that determined the characteristics of the policy output (i.e., the laws and regulations) and the policy outcome (i.e., the actual consequences) in the case of the Venezuelan foreign investment code.

The discussion is based on the notion (somewhat supported in the previous section) that the policy outcome is different than the one that would have been produced by the output's

strict enforcement.

The arguments presented here should be regarded as a set of untested hypotheses, on which more empirical and conceptual work has to be done, than as definitive assertions on the subject.

The main propositions of the scheme are:

a) One of the factors that played a very central role in defining the restrictive characteristics of the policy towards foreign investment and technology transfer in the Andean group was the widespread acceptance by key Latin American sectors of the notion of dependencia;

b) The critical elements in the determination of the Venezuela foreign investment rules are the influence of the dependencia framework and the pressures, inherent in the Venezuelan political dynamics, for the government to generate policy outputs with a high reformist content.

These two propositions relate to the determinants of the policy output. The following pertains to the policy outcome in the Venezuelan case:

c) Two main currents of thought and action (which can also be seen as representing two very broad interest groups) interact in the Venezuelan political system: the reformist and the entrepreneurial.<sup>44</sup> While the first has its influence mainly at the policy formulation stage, the second is more active at the policy implementation stage. The basic difference between the two currents is their strategic project of

country, this meaning the set of economic policy prescriptions believed to entail more benefits for the country in the long run. The hypothesis is advanced that the treatment for foreign investment and technology transfer derived from the two views is different, and this is a major cause of the gap between policy output and outcome in this respect.

#### IV. 1 THE DETERMINANTS OF THE POLICY OUTPUT

The beliefs concerning the consequences foreign direct investment has on the process of economic development have changed over the past decade or two.

While the generalized consensus used to be that the contributions of foreign direct investment (capital, technology, managerial skills, etc.) were key in promoting development, nowadays an important segment of theorists on economic development are questioning the proposition that the benefits of foreign investment for the less developed countries (LDC's) offset the "costs" of such investment. The academic debate has not provided any rigorously supported and sound conclusion on this respect which has gained wide acceptance among scholars and policy makers.<sup>45</sup>

This makes government officials and politicians from different countries (or even from different subsequent governments within the same country) use different sets of assumptions when designing policies dealing with foreign investment.

Therefore, personal values, ideology, and the particular

political and economic constraints present in the situation, are factors that more likely than not influence the assumptions on which the policies towards foreign investment are based.

Here, I will discuss the role of ideology in general, and the influence of dependencia in particular on the shaping of Decision 24. The same discussion can be applied to the Venezuelan foreign investment laws. In the case of Venezuela, certain aspects relating to the political determinants of the policy-making process also play an important role. These, however, can be more appropriately analyzed in the context of the policy outcomes discussion presented later.

#### IV. 1.1 IDEOLOGY

While a detailed analysis of the concept of ideology is far beyond the scope of this paper a discussion of some of its basic elements is in order. For the purposes of this paper a definition that can be used, with qualifications however, is Mannheim's, namely, "an integrated set of ideas for systematically ordering and evaluating social reality."<sup>46</sup> One qualification is that in the realm of ideology, ideas are no longer suitable to change through logical (or even empirical) argumentation.

In this sense Sartori equalizes ideology with a belief-system composed of, fixed elements, a strong affective component, and a closed cognitive structure.<sup>47</sup> He writes:

. . . beliefs can be defined as, "ideas no longer thought" to signify that beliefs are idea-clusters that routinize the cost of decisions precisely because they are taken for granted. Beliefs are believed--not explored, tested and held under the searchlight of consciousness.<sup>48</sup>

A second qualification is that Mannheim's definition does not stress the fact that ideologies have important action-oriented implications. When writing of ideas in the context of ideology Daniel Bell refers to "the conversion of ideas into social levers"<sup>49</sup> and Friedrich states that "it is confusing . . . to call any system of ideas an ideology . . . ideologies are action-related systems of ideas. . . ."<sup>50</sup>

Having made this clear, it is now necessary to turn to the origins and functions of ideologies. To the extent that an ideology is an explanation of social reality, it is natural to expect its content to be dependent on the environment in which it is advanced.

The same applies to the type of ideology likely to be adopted by a society in a given point in time.

Ideological explanations have to bear a minimum of resemblance to the cognitive aspects of reality to gain widespread acceptance.

On the other hand, ideological explanations also need to have a certain degree of functionality. It is reasonable to expect that the ideology of key social sectors (which is likely to be the ideology of the masses)<sup>51</sup> may be related to these groups interests and functions in society.

Portes and Ferguson define dominant ideologies as "those

interpretations which at specific points, have gained wide acceptance among key sectors, especially intellectuals and government officials."<sup>52</sup> In terms of the needed functionality of such ideologies they state:

It is by now a commonplace that dominant ideologies reflect the interests and concerns of dominant groups. Ideologies do not tend to challenge common knowledge but rather place different weights on its different truths. By stressing and elaborating some and neglecting others, they offer an image of society comfortable to the needs of economic and political elites.<sup>53</sup>

Closely related to this, is the fact that ideologies are comprehensive. The basic categories of an ideology provide an abstract framework that can be easily expanded to include many different aspects of reality, thereby giving a "totalistic" scope to the ideology.

A final point that needs mention is the role of ideology in political and economic behavior. The influence of ideology in shaping the nature and the "rationality" of economic and political transactions is an element frequently overlooked in the analysis of such transactions. In fact, "ideological politics represents a situation in which the utility scale of each actor is altered by an ideological scale."<sup>54</sup>

In summary, then, ideology: a) is a systematic way of interpreting reality, which emphasizes some aspects more than others; b) is a belief-system, and as such not easy to be influenced by logical argumentation; c) has action-related implications; d) is influenced by the reality which it interprets; e) has to have a minimum of functionality for the social



groups by which it is adopted; f) is comprehensive and its scope is expandable to include new aspects of reality and; g) ideology may alter the "rationality" (economic or political) assumed in processes of social choice.

#### IV. 1.2 DEPENDENCIA

For those familiar with the writings centered around the concept of dependency it is not necessary to emphasize the existence of the many different schools and ramifications within this framework and the consequential difficulties this presents for advancing a useful definition of dependency.

In this sense a writer states:

There is no such thing as a single unified body of thought called dependency theory, and any common ground between those who share the terminology of dependency tends to dissolve as the importance of the differences between them become greater.<sup>55</sup>

This, however, will not be a major constraint for the purposes of this paper in that the central focus here is not the analysis of the framework as a conceptual system but the interpretation of the dependency approach by key sectors in Latin America. Therefore, a detailed description of the main currents within the literature, analyzing their conceptual strengths, weaknesses and policy implications is beyond the scope of the paper.<sup>56</sup>

Nonetheless, certain aspects of the dependencia framework can be identified as common to all the different postulations of dependencia as well as to the more widespread interpretations.

A useful synthesis of these is Sunkel's:

Foreign factors are seen not as external but as intrinsic to the system, with manifold and sometimes hidden or subtle political, financial, economic, technical and cultural effects inside the underdeveloped country. . . . Thus, the concept of "dependencia" links the post-war evolution of capitalism internationally to the discriminatory nature of the local process of development, as we know it. Access to the means and benefits of development is selective; rather than spreading them, the process tends to ensure a self reinforcing accumulation of privilege for special groups as well as the continued existence of a marginal class.<sup>57</sup>

Three propositions are at the core of the dependency view--points on underdevelopment:

1) Based on Marxist notions of the processes of accumulation under capitalism and its consequences on power, dependency states that underdevelopment is caused by the transactions between the center and the periphery, the former being composed by nations that have gained an historical advantage over the latter. The model posits that this historical advantage is retained and even increased through a system of relationships by which the wealth of the periphery is extracted and used for the benefit of the historically advantaged society.

The long-run, macro consequences of exchange between unequals (nations, classes, sectors, groups) are the pyramiding and intensifying of the existing inequalities leading to widening gaps, the fragmentation of communities and decreased relative autonomy for the weak.<sup>58</sup>

2) Another central point--and a clear reaction against early development theories--is that underdevelopment is not a national problem. It can not be explained by just considering a LDC as a self-contained unit in isolation. The way in which countries are inserted into the international

economic system determines their potential for development. Therefore, the characteristics of the international linkages of any underdeveloped country and their consequences on the national system should be taken into account when any development consideration is made.

3) The third point common to most of the dependency writers heavily draws on the Marxist theory of class, and focuses on the role and behavior of some national elites (what Galtung calls "bridgehead elites").<sup>59</sup> Fagen puts this proposition in the following terms:

Social forces (classes) and their relationships to production, consumption, politics and processes of change must be understood in the light of the unequal national-international interactions positive above. The interests (economic, political, social, cultural) of nominally "national" actors are sometimes ineluctably tied to institutions outside the nation.<sup>60</sup>

#### IV. 1.3 THE INFLUENCE OF THE DEPENDENCIA MODEL IN LATIN-AMERICA

Regardless of its merits or defects as an explanation of underdevelopment the model of dependencia (meaning essentially a conceptual system containing the elements described in the previous section) is taken for granted in much of the social and economic thinking of important social sectors in Latin America.

While in its earlier formulations dependencia was adopted basically by leftist groups and intellectuals, in recent years some of the dependency ideas have been transformed into a generalized belief system accepted and used by many influ-

ential groups.

In this sense Gunder Frank wrote in 1974:

. . . the erstwhile radical desarrollistas, who have taken over much of the still more radical new dependence analysis, now commemorate dependence in the pages of the most established journal of the continent, while many of the writers themselves now occupy ministerial posts in their respective countries. So much has part of the new dependence analysis been accepted by the establishment, that the assembled foreign ministers of Latin America assembled in the White House, were able to reveal to President Nixon that foreign aid was flowing from Latin America to the United States.<sup>61</sup>

Many historical circumstances defined the pace with which dependency was being adopted by increasingly larger segments of key social groups.

Some of these were the radicalizing nationalist movements in the late 1950's and early 1960's, the disenchantment with import substituting industrialization, and the guerilla activity in many countries during the sixties.<sup>62</sup>

But despite historical circumstances which accelerated or retarded the acceptance of the dependency views, the framework has some inherent characteristics that, I will argue, importantly contribute to the consolidation of dependency among instrumental groups in Latin America. By relating these characteristics to the previous discussion of the structure of ideology it is possible to see how some interpretations of dependencia can be easily translated as ideologies, thus contributing to its spreading as the scheme by which reality is interpreted in Latin America.

First and foremost, dependency was developed while trying

to explain Latin American underdevelopment. The realities reflected by these writings were basically Latin American realities<sup>63</sup> which Latin Americans could easily recognize.

Second, the dependency schemes purported to explain most of the conditions present in underdevelopment: economic stagnation, marginality and unemployment, urbanization and dualism, class structure, etc.<sup>64</sup> All these were considered reflections or consequences of the unequal exchange between the center and the periphery.

The comprehensiveness and the simplicity to which the arguments could be reduced in this approach are undoubtedly factors that produced very large audiences for the advocates of these views.

Third, dependencia is action oriented. In many of the writings the conclusions are straightforward, the first step towards development is the reduction or elimination of all the links of dependence.

Furthermore, the style and the way in which the arguments are structured in some writings leave the impression that by eliminating dependence, development follows, somewhat autonomously, as a natural consequence.<sup>65</sup>

Fourth, the generality of some formulations of the dependency argument allows for very loose interpretations of dependency which are functional for many different social groups.

Dependency can be twisted without much effort to imply

that all the ills of society are to be found in the foreign exploiters, thus somewhat alleviating politicians from the pressures of accountability for the unchanged situation.

Another use that politicians can use a dependency-based rhetoric for is political mobilization. (This is, of course, related to points two and three, above). An example of what I mean is the following extract from a speech of Venezuela's President, Carlos Andres Perez:

Let me ask you to reflect on the role that capitalism has had in establishing links of interdependency between different regions of the world, and how, for historical reasons, this interdependence has been built on inequality. For three centuries, (and this has been mentioned many times) capitalism has achieved an international division of labor in which a group of countries had attained a very high degree of progress at the expense of the backwardness and exploitation of the remaining four-fifths of mankind. . . .

Governments trying to introduce structural reforms to modify this are very often ousted through non-democratic procedures. Regretfully this is frequent in Latin America as a consequence of the economic instabilities which are in turn caused by the endless exploitation of our wealth and our labor by the industrialized countries. . . .66

Another group for whom most interpretations of dependency have functional implications is that formed by government technocrats and officials.

Almost all the writings on dependency conclude implicitly or explicitly that the solution to overcome dependence, thus setting the stage for autonomous development, is some form of socialist arrangement. Given that this seems not to be an alternative for most of the region's countries in the near future, the second best choice along these lines can be inter-

puted as being state capitalism and the expansion of the state apparatus to all sectors in which this is politically feasible. The appeal of this interpretation for technocratic and governmental groups is undoubtable.

A third group for which certain aspects of dependency could be attractive is the national industrial sector. To the extent that dependency points to the foreign investors as producing undesirable consequences for the country, and the government reacts by restricting their operations and forcing them to divest, without affecting the national private sector, the local investor is well served. This, of course, relates to the segment of the national economic elite whose situation as such is not dependent on the foreign sector.<sup>67</sup>

The reader should bear in mind that in these four points I am referring to the generalizations and interpretations of dependency that are used outside the intellectual mainstream of the dependency writers. The more refined statements of dependency have sophisticated articulations and analyses of the mechanisms and processes by which dependency is maintained, as well as clear policy prescriptions (normally based on, or conducive to, a socialist model). These statements, however, lack a necessary element to gain widespread acceptance, namely the degree of abstraction and generality needed for the integration of the dependency schemes with the particular interests and views of many different social groups. What

happens then is that the conceptual scheme is distorted and adapted to the different needs of each group. These distortions of the dependency prescriptions are the ones that ultimately influence policy.

#### IV. 1.4 THE INFLUENCE OF DEPENDENCIA IN THE FORMULATION OF THE ANDEAN GROUP'S FOREIGN INVESTMENT POLICY

Many different factors influenced the formulation of the Andean Code on foreign investments.

Some among these are: the increased information that began to appear on the operations and structures of the multinational corporations (MNC's) resulting from an increased number of studies conducted in the late 1960's and early 1970's in universities, research centers, government agencies and international organizations; the notion that an integration agreement like the Andean Pact would provide more opportunities for the MNC's operating in the region than for the local companies. (This in turn, was importantly influenced by the experience of the Latin American Free Trade Association--LAFTA--and its schemes of industrial complementation agreements.<sup>68</sup>)

The increase in the number and frequency of international meetings, conferences and seminars where government officials joined in discussing their common problems in regards to their countries' international linkages (e.g., Balance of Payments, Trade, foreign investments), thus generating a setting favorable to a common action (the example, par



excellence of these, is the UNCTAD conferences. In Latin America the meetings of the Special Commission on Latin American Coordination--CECLA--at Viña del Mar and the Inter American Economic and Social Council, CIES an OAS organ, in 1969, were instrumental in shaping a new attitude towards foreign investment.)<sup>69</sup>

But the basic factor that give relevance to all these facts and ultimately made <sup>it</sup> possible that governments and technocrats from very different countries could find a common ground in which to articulate a position acceptable to all was their sharing of a similar approach, namely dependencia.

Again, it may be useful to think in terms of ideology:

One function of ideology is to make available a system of explanation that provides a context within which social interaction can take place.<sup>70</sup>

That dependency in general was such a system of explanation can be perceived by the content of the policy and by statements by the senior Andean Pact officials that took part in the drafting of the code. A member of the Cartagena Agreement Board (the technical Secretariat of ANCOM) thus stated:

A regime of control over the foreign investments and the transfer of technology constitutes only a temporary palliative of the problems of dependency posed with so much force by the modern world to the underdeveloped countries.<sup>71</sup>

The head of the Legal Unit Board of the Cartagena Agreement wrote on the same lines:

The causes of the poor countries' stagnation and backwardness must be looked for in the existence of a system rooted in the exploitation and the transference of their resources to the rich countries. It is not a matter of

two islands moving in opposite directions, but of a structure in which the higher strata absorbs the wealth of the lower strata, thus transforming and utilizing it for its own benefits.<sup>72</sup>

Furthermore he maintained that:

The [international] system is built to preserve the subordination of the backward countries on the developed countries. It includes many factors (demonstration effect, monopoly, braindrain, factor misallocation, etc.) each of which serves for the intensification of the poor countries demand for resources and skills mainly found in the rich countries, thus directly contributing to economic dependence and indirectly to political and cultural subordination.<sup>73</sup>

Still another example is provided by the former Peruvian representative to the Cartagena Agreement Commission, (the highest ANCOM body) Lieutenant-General Luis Barandiaran.

In a discussion on foreign investment he concludes:

The non-measurable costs of foreign investments . . . can generate a decrease of our capacity to make basic decisions, to an increase of our economic and political dependency on foreign power centers and the obstruction of our autonomous and independent development.<sup>74</sup>

Let us note some of the points stated in the policy output of the Andean Pact law-making agency. While Decision 24 just mentions the fact that its objectives are the strengthening of national companies and that foreign investment is welcome "to the extent that it constitutes an effective contribution to obtain the objectives of integration and reach the goals indicated in the national development plans,"<sup>75</sup> Decision 84 which sets the guidelines for a common policy for technological development in the subregion contains a specific exposition of the motives that led to its issuance. Among others:

. . . that due to the limiting factors of development an extreme situation of technologic dependence has arisen . . . and that the member countries have been relying predominantly on external sources to supply the needs imposed by their technical development, with undesirable consequences such as . . . the conditioning of political and economic decisions to externally imposed technological solutions. . . .<sup>76</sup>

And that:

It is necessary, as it was already recognized by Governments in the Bogota Declaration and reconfirmed in Decision 24, to bring to an end the above described situation by pursuing a joint and programmed effort aimed at overcoming the situation of dependency, . . . and to orient the policies on technology imports in a way supportive of the development efforts instead of hampering them.<sup>77</sup>

In conclusion, what I want to stress here is that the many other factors that influenced the drafting of Decision 24 were influential because the dependency framework emphasized them. Studies on the operations of the multinationals produced in American universities become more relevant for the policies, after they had been interpreted using the dependency world-view. A balance of payments problem, has a much different meaning when analyzed from a dependencia perspective. The same holds true for trade, foreign investment flows, lack of "appropriate" technology, etc. etc.

Dependencia, in short, contributed to the design of the reality to which the policies were directed.

#### IV. 2 THE POLICY OUTCOME AND ITS GAP WITH THE ORIGINAL OUTPUT

The fact that the Venezuelan laws on foreign investment contained some clearly unenforceable rules may be interpreted in different ways.

One is that the Venezuelan laws were a consequence of bureaucratic functioning, by which a government agency had the responsibility of implementing Decision 24, and in a straightforward bureaucratic process laws containing the provisions of Decision 24 were drafted. All this without an accurate analysis of their implications.

With this interpretation however it is very difficult to explain the presence of clauses not contained in Decision 24 and which rendered the Venezuelan rules more restrictive than Decision 24.

Accordingly, it seems reasonable to assume that the laws were not issued simply following Decision 24. Based on this, an alternative explanation is advanced here in which it is maintained that the process by which these laws were issued was influenced by the implicit, non formalized transactions of the actors involved in the process.

The explanation is based on the broader context of the analysis of policy making in Venezuela. It is necessary to remember, however, that the arguments presented here are essentially untested hypotheses, and that the explanation is suggested more as a framework for future research rather than as a definitive formulation.

Three focal points of analysis are included on the explanation which can be summarized as follows:

- 1) Inherent to the Venezuelan political system are important pressures for the government to produce change. This

change however, can not be generated with the speed with which it is required or can not be attained at all (at least in the short run);

2) As a surrogate for actual change, and in order to alleviate the demand pressures, policies with important reformist contents are issued and used for propaganda purposes.

In many cases the way in which these policies are implemented produces different effects than those that were publicized as the policy intentions. The main reasons for this are: a) the government agencies responsible for the implementation lack the resources (especially political power) needed to enforce and carry on the legislative output, and; b) the actors affected by the policy intervene at the implementation stage thus redirecting the policy consequences;

3) At a more abstract level in the political system, two currents of thought struggle to influence policy: the reformist and the entrepreneurial. The results of these interactions are the main determinants of the policy outcome. In these transactions the underlying causes for the outcome of the foreign investment policies are hypothesized to lie.

I will turn now to a brief discussion of each of these points.

Two closely related objectives are critical for governments elected in the young Venezuelan democracy:<sup>78</sup> the legitimation of their authority and the building of mass support.

Governments are constantly under political attack from

other parties and groups which may question the government in particular or the system in general.<sup>79</sup> With the problems of underdevelopment as a general context the room for criticism is very broad. The issue underlying the great majority of the demands on the government is change. Change, however, is normally very difficult to produce in this context. The demands for change increase both quantitatively, as a consequence of the population expansion, and qualitatively due to the renewed aspirations and expectations largely produced by the widespread social mobilization. Therefore, the country's institutional capacity<sup>80</sup> to respond to these demands changes at a much lower rate than the increase of the population's demands, thus creating a persistent unbalance in the political system.<sup>81</sup> Another possible obstacle in meeting the demands may be that they would require some politically unfeasible change given the society's power structure.

In the center of this conflict ridden scenario stands the government. While, certainly the government has the capacity to influence and determine many facets of the country's life, under the above described circumstances it is easy to imagine that the maneuvering needed to gain an adequate level of stability greatly reduces its autonomy.

The need to maintain a balance between the demands that reach the system and its capacity to respond to them is a critical issue.

One of the mechanisms used to alleviate the pressures

while building mass political support is by relying on "symbolic" policy outputs.

These are normally very rhetorical in style and reformist in content. The purpose of issuing these policies at the higher political level where they are generated is primarily to gain mass support. The lag that normally exists between their issuance and the time in which the consequences of their implementation can be appraised, reduces the possibilities that a negative evaluation may cause important negative political repercussions.

Given this pattern of policy formulation, it should not be surprising that these policies end up having different consequences than what the official statements purported them to be.

On one hand a government agency is given the overwhelming task of implementing a policy that would either: a) require massive efforts and resources which the agency does not possess, or; b) affect interests of influential actors which in some cases are able to mobilize more resources (including political) than the government agency itself. A combination of both is of course frequent.

The influence of concerned actors during the implementation process is discussed by a political scientist in the following terms:

The open clash of organized interests is often conspicuously absent during the formulation of legislation in these nations. To conclude from this, however, that the public has little or no effect on the eventual "output" of the government will be completely unwarranted. Be-



tween the passage of legislation and its actual implementation lies an entirely different political arena that despite its informality and particularism has a great effect on the execution of policy. . . .

A large portion of individual demands, and even group demands, in developing nations do not reach the political system before laws are passed but rather at the enforcement stage. Influence before the legislation is passed often takes the form of "pressure-group politics." Influence at the enforcement stage often takes the form of "corruption" and has seldom been treated as the alternative means of interest articulation which in fact it is.<sup>82</sup>

I should add, however, that this type of corruption is analytically distinct from others to the extent that this is structurally determined by the way in which the interest articulation process is conducted.

An area in which this pattern of policy making is frequently found is in policies concerning the business sector. This is so in that business is the more visible target for reformist policies. At the same time the business sector has a relatively higher capacity to organize and to react than other social sectors besides the political parties.

In his work on the business-government relations in Venezuela Jose Antonio Gil gives some examples of influence at the implementation stage:

Businessmen seem to have had [in import substitution] little influence on framing the question of the policy issue, some influence on the formulation of the policy program and relatively more influence on its implementation.<sup>83</sup>

In another example he writes:

. . . The private sector was able to influence more the processes of formulating and implementing the economic integration decision than the framing of the question. Businessmen opposed and delayed LAFTA as much as they could and when it was unilaterally approved by [Presi-



dent] Leoni's Congress, the trade agreement was simply ignored by business and it was not implemented.<sup>84</sup>

Concerning the overall influence of the business sector in public policy making Gil concludes:

(1) Issues reach the decision-making agenda if the political sector so decides. (2) Business can influence the process of policy formulation by eliminating or adding conditions to proposals made by the government or politicians, or by diverting the issue. (3) The highest degree of influence has been reached by entrepreneurs in the stage of program implementation.<sup>85</sup>

Gil's conclusions hold also for the foreign investment policy discussed here with the difference, however, that the affected actors (i.e., foreign owned businesses) lacked the political legitimacy needed to participate (even marginally) in the process of policy formulation, in which according to Gil their national counterparts normally have a certain degree of influence. The real influence, however, was, consistent with Gils' contention, at the implementation stage.

A further element will be introduced at this point in the discussion. While these are interactions that take place at one level of the political system, I will suggest that they are the manifestations of a high level intra-elite conflict in which two currents interact intensely in trying to influence policy. These two currents are what have been called here the reformist and the entrepreneurial. The first clarification to be made is that they are not intended to represent groups composed exclusively of entrepreneurs or of reformists.

They refer to groups which have as a common denominator a shared view on the strategy that would provide most benefits for the country.

In general terms, one can say that the underlying component in many of the basic differences between the two approaches is the standing on the trade off between economic growth and the egalitarian distribution of wealth and income.

The entrepreneurial view emphasizes economic growth based on the promotion of industrialization (if necessary with the participation of foreign firms) using advanced technology, in a free market, private enterprise context. The segment of this group formed by businessmen not formally linked to a political party is also very intensely against any degree of government intervention on the grounds that the only consequences this has is the expansion of corruption and bureaucracy, and the reduction on the levels of economic activity.

Other elements within this group, like the politicians and military, emphasize the state's active participation in productive activity through the creation of state owned enterprises. The existence of this group is far from new and was generally referred to in the Latin American literature as the desarrollistas (developmentalists).

The reformist views are much more difficult to characterize given the broad spectrum of positions found within it, from the extreme left to the more conservative approach which simply questions the free market capacity to bring about an improve-

ment in the lower classes' situation. This is rooted in the notion that with the present structure of the Venezuelan economy, in which the family controlled conglomerate introduces all kinds of distortions on the economic process, the market is a very poor mechanism to allocate resources. Another component of the approach emphasizes reduction in the levels of external dependency through the adoption of development models not aimed at replicating the developed countries' path but to generate alternative methods, possibly with less advanced technology (generally referred to as "intermediate" or "soft" technology) and more labor intensive industrialization even if this entails a slower rate of economic growth.

As in most analytical schemes, and especially in abstractions as this one, the categories do not pretend to fit neatly into all identifiable actors in the political system. In this case they are presented in an attempt to identify two important forces that shape government policies in Venezuela.

While the two currents can be simultaneously accommodated in certain policy areas (education, for example), in others their clash is inevitable. Foreign investment and technology transfer is one of those.

To accommodate the views of groups respectively interested in reducing external dependency and promoting high technology industrialization at the same time is extremely difficult, if not impossible.

The two approaches, however, can be found in two sets of

policies that are being implemented simultaneously in Venezuela. The laws of foreign investment and technology transfer, which I maintain is a "reformist output" and the quinquennial development plan issued in 1976 and which I posit to be an "entrepreneurial output." Bear in mind that I am referring here to the underlying views and models of "desirable country" implicit in the policies, not to their specific characteristics.

The fifth development plan is supposed to be the compulsory guideline to be followed by all government agencies and departments. One foreign analyst has stated that:

The plan, the crucible for state capitalism in Venezuela, is the most ambitious and expensive development blueprint ever formulated in the nation, perhaps the boldest ever drafted in Latin America.<sup>86</sup>

The plan calls for total investments in the order of forty billion dollars between 1976 and 1980.<sup>87</sup> The essence of the plan's goals is to achieve an economy based more on heavy industry and agriculture thus reducing the traditional lopsided dependence on oil.

The international economic role played by the country should be expanded, according to the plan, by including steel, aluminum, petrochemicals and a whole set of non-traditional industrial products as major components of the nation's exports within the coming years. Implicit throughout the plan is that this is to be achieved with up-to-date technology, given:

a) the need to allocate the oil revenues in investments that would not be rapidly eroded by inflation, and; b) the relative

short time horizon in which this industrial expansion has to be implemented.

In this way it is possible to see how the role given to foreign investors and technology suppliers by the plan is different from what is implied by the policies on foreign investment and technology transfer. A difference that I suggest is rooted in the two underlying views influencing the policies.

The validity of the model discussed here in explaining the behavior of the control system for foreign investment should await further research. The determinants of the behavior of organized and non-organized groups in this area and the nature of the interaction among the different interests present in the policy making and implementation processes is a subject in which very little is known at this time.

Future research should focus on enhancing our understanding of how different actors (classes, sectors, interest groups, etc.) intervene in the policy formation and implementation processes, thus producing results more in line with their interests.

This of course requires the previous determination of the interpretations that guide their actions in seeking to influence what they consider to be consistent with their interests. The analysis should go beyond the normal approach of the state as a rational, one-dimensional actor and also beyond the first approximations in which undefined elites manipulate the state

to extract benefits and privileges at the expense of the rest of society.

The importance of gaining a greater understanding of these issues and the relevance of finding adequate analytical models to deal with them, is stressed by the expansion of state power in all of Latin America in recent years. Government activity has now extended to many new areas, and the multiple discussions on state-capitalism which have recently begun to appear, are clear hints of even further extensions of the state domains of intervention.

If government activity in Latin America is going to have different impacts on Latin American societies than it has had in the past, the need to explain its policies as a complex socioeconomic process rather than the output of a black box, or the manifestation of the wills of some exploiters hidden in the interstices of social groups, should perhaps be one of the main priorities of Latin American social scientists.

## NOTES

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<sup>1</sup>For examples using these different approaches within economics see Tironi Ernesto, "economic Integration and Foreign Direct Investment Policies: The Andean Case," (Ph.D. Dissertation, Department of economics, M.I.T., 1976); Baanate, C. and R. Simmons, "Efectos de la union advanera sobre la industria de fertilizantes de nitrogeno en la zoua andina," El Trimestre Economico, Vol. XLIII, No. 169, January, pp. 141-166; Schydowsky, D., "Allocating Industries in the Andean Group" Journal of Common Market Studies, Vol. IX, No. 4, June 1971, pp. 299-307; Morawetz D., The Andean Group: A Case Study in Economic Integration Among Developing Countries (Cambridge, Mass.: M.I.T. Press, 1974); M. Avila, "Programacion de la industria metalmeccanica en el Acuerdo de Cartagena," Revista de la Integracion, No. 13, May 1973, pp. 52-74.

<sup>2</sup>See: Erelí, "The Andean Common Market" Houston Law Review, No. 8, January 1971, pp. 30-41; Garcia Amador, "Latin American Economic Integration" Lawyer of the Americas, No. 2, Oct. 1970, pp. 445-449; P. Schliesser, "Restrictions on Foreign Investment in the Andean Common Market" International Lawyer, Vol. 5, No. 3, 1972, pp. 586-598; G. Fernandez, "El regimen uniforme de la empresa multinacional en el Grupo Andino," Derecho de la Integracion, BID/INTAL No. 11, Oct. 1972, pp. 284-301; R. Dañino, "The Andean Code After Four Years" International Legal Studies, Harvard Law School, 1975 (mimeo); S. Rose, "The Andean Pact and its Foreign Investment Code" Tax Management International Journal, January 1975, pp. 1-12.

<sup>3</sup>See for example: Graham T. Allison, Essence of Decision: Explaining the Cuban Missile Crisis (Boston: Little Brown & Co., 1971; Jeffrey L. Pressman and Aaron Wildavsky,



Implementation: How great expectations in Washington are dashed in Oakland; or, Why it's amazing that Federal programs work at all, this being a saga of the Economic Development Administration as told by two sympathetic observers who seek to build morals on a foundation of ruined hopes, (Berkeley: University of California Press, 1973).

<sup>4</sup>Herbert Simon, Models of Man (New York: John Wiley, 1957); also James March and Herbert Simon, Organizations (New York: John Wiley, 1958).

<sup>5</sup>Yair Aharoni, The Foreign Investment Decision Process (Boston: Harvard Press, 1966) p. xii.

<sup>6</sup>This term is used to refer to actions and events that take place in a non-institutionalized, non-explicit manner.

<sup>7</sup>This is discussed in more detail in Section III.

<sup>8</sup>For a discussion of the causes of this four year lag in Venezuela's entrance to The Andean Pact see Moise Naim, "Negotiating Integration: Venezuela's Participation in the Andean Pact" International Management Group, Sloan School of Management, M.I.T. Unpublished paper, April 1976.

<sup>9</sup>Cartagena Agreement. Subregional Integration Agreement, Bogota, May 29, 1969 (mimeographed). My translation.

<sup>10</sup>This summary refers to the Andean Foreign Investment Code as of October 1976, when Decision 106 modified Decision 24. The relevant changes are mentioned in Section III.4 below. The complete version of Decision 24 can be found in SIEX, Common and Internal Rules of Treatment for Foreign Capitals and Transfer of Technology (Caracas, Division of Information and Technical Documentation, 1976) available in English.

<sup>11</sup>Prior to the existence of SIEX, no official registering of foreign investment existed. The Central Bank, however, recorded for balance of payment purposes the subscribed capital of foreign firms, SIEX instead registers only paid capital. No statistical bulletin or figures are periodically issued by SIEX and all quantitative information in the subject is given in aggregates and on an unofficial basis.

<sup>12</sup>The meeting resulted in the withdrawal of Chile from the Pact and the release of Decision 103 which modifies Decision 24. The modifications are mentioned in Section III. 4 below.



<sup>13</sup>Fifty-nine were existing contracts which were modified to comply with the new laws and fifteen were new contracts. Sources: "Foreign Investment, Professionalism Applied Here Creates Climate of Confidence in the Economy" The Daily Journal (Caracas) Friday, April 9, 1976.

<sup>14</sup>This is due to many factors. Among those are the lack of expertise in the area and the fact that the superintendency was under close scrutiny by at least two other government agencies which would have liked to have under their jurisdiction some of SIEC's responsibilities. Private interviews.

<sup>15</sup>See Jose Antonio Gil, Las Elites Divididas (title approx.) Caracas, Monteavilla, forthcoming 1977).

<sup>16</sup>Private interview.

<sup>17</sup>This was done by interviewing first individuals to whom I was introduced by a third party. At the end of the interview the person was asked to recommend some other executive officer he or she thought should be interviewed in this concern, and so forth. The interview had an open "conversational" part and a questionnaire part. All the interviews were done by me.

<sup>18</sup>See R. Dañino, "The Andean Code After Five Years" in Lawyer of The Americas, October 1976.

<sup>19</sup>See G. Pico Mantilla, "Regimen Comon de Capitales Extranjeros, Organismos Nacionales Competentes." Paper presented to the Fourth Congress of Andean Countries' Lawyers, Caracas, April, 1976.

<sup>20</sup>Private interviews. Also John R. Pate, "Present and Future Venezuelan Technology Policies: Implementation and Implications for Technology Suppliers and Foreign Investors." Paper presented at the Seminars on Technology Policies in Columbia and Venezuela, New York, Council of the Americas, February 1976, p. 4.

<sup>21</sup>Even if no formal law defines what type of firms will be included in this group, SIEC has continually reiterated that the criteria is that a foreign firm would be considered to be engaged in internal commerce if more than 49 percent of the products it sells in the country are not directly produced by it, or possibly in part under contract by a national firm, and have, probably, a national value added exceeding 30 percent (both these two last points had not been officially

stipulated as of September 1976). See Pate, op. cit., p. 7.

<sup>22</sup>See, for example, Raymon Vernon, Sovereignty at Bay (New York: Basic Books, 1971). For a discussion of three likely consequences of this situation see Robert Gilpin, "Three Models of the Future" in Bergsten and Krause (eds) World Politics and International Economics (Washington, Brookings, 1975), pp. 37-63.

<sup>23</sup>Private interviews with government officials.

<sup>24</sup>The legal rationale claimed by the government in the specific case of IBM was that the company was really not selling anything "tangible" thus the law was not applicable. Exceptions with these companies will probably be made in the guise of service and technical assistance agreements.

<sup>25</sup>See Aharoni, op. cit., Part II; Wickham Skinner, American Industry in Developing Economies (New York: John Wiley, 1969), pp. 9-25.

<sup>26</sup>Private interview.

<sup>27</sup>The law ruling the Corporacion Venezolana de Fomento, CVF, (Venezuelan Development Corporation, a government finance institution) was recently modified to allow for the possibility of CVF buying the divesting companies' shares. However, in an interview with a CVF's top official, he declared that this was not contemplated in the Corporation's activities for the next coming years. Furthermore, in a press release the head of SIEX stated that the government had no intention of absorbing the divesting companies' shares. "El Gobierno no Tiene el Proposito de Apoderarse de Las Empresas Extranjeras" El Nacional (Caracas) Sunday, August 29, 1976.

<sup>28</sup>Private interview.

<sup>29</sup>The term technology contract is used here meaning any contract regarding the use of patents, licenses, trademarks and brand names, or any other form of process and managerial technology between a foreign and national firms irrespective of their relationship.

<sup>30</sup>Decree 746, art. 1. Extracted from SIEX, op. cit.

<sup>31</sup>Ibid., p. 68. (Decree 746, art. 1).

<sup>32</sup>Hughes et al., "Tranferencia de Tecnologia, Normas Legales Vigentes en Venezuela." Paper presented at the Eleventh Meeting of the Iberoamerican Lawyers Club, Mexico, April 1976, p. 5.

<sup>33</sup>Generalizations of this sort should of course be qualified in the context of the influence the domestic and international market structures have in the process.

<sup>34</sup>A currency may be defined as overvalued when at the current rate of exchange production costs for tradable goods in the country are on average higher than in other countries. For discussions on currency undervaluation see, Glogio Ragazzi, "Theories of the Determinants of Direct Foreign Investment," IMF Staff Papers, Vol. XX, No. 2, July 1973, especially p. 491 and ff; also Aliber, "A theory of Direct Foreign Investment" in Kindleberger (ed) The International Corporation: A Symposium (Cambridge: M.I.T. Press, 1970), pp. 17-34. For an analysis of the Venezuelan protection system and exchange rates in relation to the country's industrial policy see S. Hunt, "Industrial Policy in Venezuela," unpublished paper, Center for Latin American Development Studies, Boston University, 1976.

<sup>35</sup>Hunt, op. cit., p. 64.

<sup>36</sup>Gaceta Oficial, No. 30, 744; August 21, 1975.

<sup>37</sup>All the government officials interviewed pointed out that an event that determined much of the law's characteristics was the buying by an important familiar group of the main chain of food retailing in the country when the foreign owners were obliged to divest. The annoyance with this transaction lied in that the government has stated as one of its main objectives the "Democratization of Capital" and in this operation the other interested buyer, outperformed by the familiar group, was the "Workers Bank" a bank owned and managed by unions. Private interviews.

<sup>38</sup>This was predicted by many studies, see, for example, P. Bouckaert, et. al., "How Will Multinational Firms React to the Andean Pact's Decision 24?" Inter-American Economic Affairs, Fall 1971; also, R.D. Robinson, National Control of Foreign Business Entry (New York: Praeger, 1976), pp. 180-291. For a study which concluded that interest in divestment did exist see G.B. Meeker, "Fade Out Joint Venture: Can it work in Latin America?" Inter-American Economic Affairs, Spring 1971. See Robinson, op. cit., p. 275 for a discussion of the flaws in Meeker's conclusions.

<sup>39</sup>Private interview.

<sup>40</sup>A company pursuing this alternative is called SAICA (broadly held public company) and has special laws applied to it.

<sup>41</sup>It is important to note that of the following a great many are prohibited for the national private sector too.

<sup>42</sup>James G. March, "Model Bias in Social Action," Review of Educational Research, Vol. 42, No. 4 (1972) p. 413.

<sup>43</sup>Program, "The Children and the Problems of the Third Word" reprinted in FACES Journal of the School of Social and Economic Sciences, U.C.V., Caracas, September 1976, No. 1, pp. 58-64. My translation.

<sup>44</sup>These terms were used by Professor Albert O. Hirschman in a seminar at MIT in March 1977. Professor Hirschman referred to them as "functions" and utilized them in the context of a discussion of totalitarianism in Latin America. My interpretation is that I am using them in a slightly different way.

<sup>45</sup>By this I mean the non-existence in this area of a generally accepted "Kuhnian" paradigm. See Thomas S. Kuhn, The Structure of Scientific Revolutions (Chicago: University of Chicago Press, 1962). See also Adrian Forster-Carter, "From Rostow to Gunder Frank: Conflicting Paradigms in the Analysis of Underdevelopment" World Development, 4 (March 1976) pp. 167-180.

<sup>46</sup>Karl Mannheim, Ideology and Utopia (London: Routledge & Kegan Paul, 1936), p. 212.

<sup>47</sup>Giovanni Sartori, "Politics, Ideology and Belief Systems," American Political Science Review, Vol. 63 (July 1969) pp. 398-411 (emphasis in the original).

<sup>48</sup>Ibid., p. 401. The citation in the paragraph is from Wladimir Weidle, "Sur le Concept d'Ideologie," Le Contract Social (march 1959) p. 77.

<sup>49</sup>Daniel Bell, The End of Ideology (New York: Collier Press, 1962), p. 400.

<sup>50</sup>C. J. Friedrich, Man and His Government (New York:

McGraw Hill, 1963) p. 89. Cited in Sartori, op. cit., p. 399.

<sup>51</sup>The point has been made that the masses' ideology is mediated and influenced by the ideology of the elites. Normally the difference between the elite and mass ideologies lies on their degree of articulation, with the elites having better articulated ideologies. See Philip E. Converse, "The nature of Belief Systems in Mass Publics" in D. Apter (ed.), Ideology and Discontent (New York: Free Press, 1964).

<sup>52</sup>Alejandro Portes and D. Frances Ferguson, "Comparative Ideologies of Poverty and Equity: Latin America and the United States." Paper presented at the Conference on Comparative Urbanization, UCLA, School of Urban Planning, May 1975, p. 2.

<sup>53</sup>Portes and Ferguson, op. cit., p. 2.

<sup>54</sup>Sartori, op. cit., p. 410.

<sup>55</sup>Timothy F. Harding, "Nationalism and the State in Latin America" Latin American Perspectives, Issue II, Vol. III, No. 4, (fall 1976).

<sup>56</sup>For analysis and critiques of dependency see: C. R. Bath and D. J. Dilmus, "Dependency Analysis of Latin America" Latin American Research Review, Vol. XI, No. 3, pp. 3-54; T. H. Moran, "Multinational Corporations and Dependency: A Dialogue for Dependentistas and Non-Dependentistas" in Bergsten et al, American Multinationals and American Interests (Washington, Brookings Institution, Forthcoming 1976); T. E. Weisskopf, "Dependence as an Explanation of Underdevelopment: A Critique." Paper presented at the Sixth National Meeting of the Latin American Studies Association, Atlanta, March 1976; A. Portes, "On the Sociology of National Development: Theories and Issues." Unpublished paper, University of Texas, Austin 1975; R. R. Fagen, "Studying Latin American Politics: Development, Dependency, and . . .?" Unpublished paper, Department of Political Science, Stanford University, March 1976.

<sup>57</sup>Oswaldo Sunkel, "Big Business and 'Dependencia'" Foreign Affairs, L (April 1972), p. 519.

<sup>58</sup>Richard R. Fagen, "Studying Latin American Politics: Development, Dependency, and . . .?" Unpublished paper, Department of Political Science, Stanford University, March 1976.

<sup>59</sup>Johan Galtung, "A Structural Theory of Imperialism" Journal of Peace Research, No. 8 (1971), pp. 81-117.

<sup>60</sup>Fagen, op. cit., p. 20.

<sup>61</sup>Andre Gunder Frank, "Dependence is Dead, Long Live Dependence and the Class Struggle: An Answer to Critics" Latin American Perspectives, Vol. 1, No. 1, 1974 (emphasis in the original). The journal referred to in the paragraph is El Trimestre Economico published in Mexico.

<sup>62</sup>This affected different social groups in different ways. While it introduced the notion of "fight against imperialism and its investments" among students and radicals, it also made it impossible for the governments to accept a theory with Marxist overtones at a time when they were fighting against communist inspired and financed guerilleros.

<sup>63</sup>By this I am not implying that the structural realities of underdevelopment are completely different in other regions.

<sup>64</sup>For a summary of these points in dependency see Ronald H. Chilcote, "A Critical Synthesis of the Literature" Latin American Perspectives, Vol. 1, No. 1, 1974, pp. 4-29.

<sup>65</sup>See for example James Petras (ed.), Latin America: From Dependence to Revolution (New York: John Wiley & Sons, 1973).

<sup>66</sup>Carlos Andres Perez, Presidential address to the world meeting of Social Democratic Leaders, Caracas, May 1976. Reprinted in Nueva Sociedad, No. 24, May-June 1976, pp. 11-18. My translation.

<sup>67</sup>An indication of this is that in all the publications of Pro-Venezuela (an important opinion group formed mainly by businessmen and industrialists) which deal with the country's international linkages (e.g., international treaties, foreign trade, foreign investment, etc.) adopt a Dependencia position on the issues. See Pro-Venezuela's Denuncia y Comercio Exterior (Caracas, 1972). Las inversiones Extranjeras en Venezuela (Caracas, 1973); Accion y Reaccion (Caracas, 1973).

<sup>68</sup>M. Wionczek, Problemas involucrados en el establecimiento de un trato comun para la inversion extranjera en el Mercado Comun Andion (Bogota: Acuerdo de Cartagena, 1970), p. 35.



<sup>69</sup>For a discussion of the political antecedents of Decision 24 see L. Barandiaran, "Antecedentes Politicos de la Decision 24." Paper presented at the International Seminar on Foreign Regulations in The Andean Group, Caracas, March 1975, p. 24. My translation.

<sup>70</sup>Laurie B. Brown, Ideology (Harmondsworth, Middlesex: Penguin Books, 1973), p. 176

<sup>71</sup>Germanico Salgado O., "The Andean group and foreign investment: The basic lines of a regional policy in relation to the transnational enterprise." Paper presented at the International Seminar of Foreign Regulations in the Andean Group, Caracas, March 1975, p. 12.

<sup>72</sup>Gustavo Fernandez, "Antecedentes y Contexto Politico de la Decision 24." Paper presented at the International Seminar on Foreign Regulations in the Andean Group, Caracas, March 1975, pp. 4-5. My translation.

<sup>73</sup>Ibid., p. 8. My translation.

<sup>74</sup>Luis Barandiaran, op. cit., p. 16. My translation

<sup>75</sup>Decision 24, Declaration, paragraph 2, in SIEEX, op. cit., p. 10.

<sup>76</sup>Commission of the Cartagena Agreement. Decision 84, June 1974. Reprinted by SIEEX, Publications Division, Documents Series No. 4, p. 9. My translation.

<sup>77</sup>Ibid., p. 11. My translation.

<sup>78</sup>The longest period of democracy started in 1958 and the first time in Venezuelan history in which an opposition party took power through an electoral process was in 1968.

<sup>79</sup>A common slogan in the 1973 electoral campaign was that the next period was "the last chance" for democracy to prove its ability to solve the country's problems.

<sup>80</sup>Adelman and Morris use the term "output institutions" and quantify it by constructing a subjective index that combines the efficiency of the bureaucracies and the characteristics of the tax system. See I. Adelman, and C. T. Morris, Society, Politics and Economic Development (Baltimore: Johns

Hopkins Press, 1967).

<sup>81</sup>A good analysis of this as a recurrent characteristic of societies in transition is found in S. P. Huntington, Political Order in Changing Societies (New Haven: Yale University Press, 1968) especially chapter II.

<sup>82</sup>Jame C. Scott, "Corruption, Machine Politics and Political Change," in Arnold J. Heidenheimer (ed.), Political Corruption: Readings in Comparative Analysis (New York: Holt, Rinehart & Winston, 1970), P. 549. Emphasis in the original.

<sup>83</sup>Jose Antonio Gil, "Entrepreneurs and Regime Consolidation" in Martz and Myers (eds.), The Democratic Experience in Venezuela (New York: Praeger, 1977), p. 61.

<sup>84</sup>Ibid., p. 61.

<sup>85</sup>Ibid., p. 61.

<sup>86</sup>J.A. Mann, "How to spend by really trying" Business Venezuela, No. 43 May-June 1976, p. 38.

<sup>87</sup>Cordiplan, Quinto Plan de la Nacion (Caracas, Codiplan 1976.



## APPENDIX 1

## Characteristics of the Firm's Interviewed

Foreign Owned <sup>a</sup>	17
Venezuelan Owned	6

## Group I

I. Foreign Owned Engaged in Domestic Marketing By  
Business and Nationality

<u>Number of Firms Interviewed</u>	<u>Business</u>	<u>Nationality</u>
2	Petroleum equipment and services	U.S.
2	Household appli ances	U.S.
1	Office equipment	West-Germany
1	Office equipment	U.S.
1	Safety products	U.S.
1	General industrial products	U.S.
<u>8</u>		

## Group II

II. Foreign Owned Manufacturing Firms

<u>Number of Firms Interviewed</u>	<u>Business</u>	<u>Nationality</u>
1	Graphic arts supply	U.S.
3	Automotive, and auto- motive parts and sup- plies	2 U.S. & 1 Italy

<sup>a</sup>Defined as being more than 49 percent foreign owned. All these firms were established prior to the enactment of the foreign investment laws.

<u>Number of Firms Interviewed</u>	<u>Business</u>	<u>Nationality</u>
1	Food-stuffs	U.S.
1	Cosmetics	U.S.
1	Chemicals and plastics	U.S.
2	Pharmaceuticals	Switzerland & U.S.
<u>9</u>		

Group III

III Venezuelan Majority Owned Manufacturing Firms By Business

<u>Number of Firms Interviewed</u>	<u>Business</u>
2	Pharmaceuticals
1	Automotive and spare parts
1	Chemicals
1	Paper products
1	Paints and industrial inks
<u>6</u>	

## APPENDIX 2

### The Questionnaire

1. Do you think your firm will continue to operate in Venezuela after May 1977?  
  
yes  
no  
don't know
  
2. For how long?  
  
less than one year  
one to three years  
three to five years  
more than five years  
don't know
  
3. Are you considering not to renew any of the technology contracts which you are presently using in your production processes when they expire?  
  
yes  
no  
don't know
  
4. Are you considering the alternative of exporting products manufactured under license?  
  
yes  
no  
don't know
  
5. Have you had any informal agreement by which the taxes attributable to the supplier will be absorbed by you in any form (increased prices, for example)?  
  
yes  
no  
don't know





Date Due

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BASEMENT

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DE 31 '87

MAR 17 '88

Lib-26-67

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T-J5 143 w no.921- 77  
Barnett, Arnol/Crime and capital punis  
731204 D\*BKS 00035432



3 9080 000 840 576

T-J5 143 w no.922- 77  
Naim, Moise. /Ideology, dependencia a  
731206 D\*BKS 00035433



3 9080 000 840 618



3 9080 004 584 154

923-77

T-J5 143 w no.924- 77  
Berman, Oded. /Robust regression and s  
731210 D\*BKS 00035434



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